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MEMORANDUM FOR: Director of Central Intelligence

THROUGH : Deputy Director of Central Intelligence

FROM : Maurice Lipton
Comptroller

SUBJECT : Reducing Costs and Improving Efficiency (U)

REFERENCE : Memo for DDA and Compt fr DCI dtd 2 June 1981,
Subject: Cost Reduction and Efficiency (U)

1. This memorandum responds to your request for a review of opportunities to reduce costs and improve overall efficiency in Agency programs. Although in one sense I believe you are right in thinking that there is a general feeling here that we are "immune" from vigorously pursuing cost reductions, I think that feeling is easily misinterpreted. It reflects, I believe, current preoccupation with the need for a quantum improvement in many areas -- a need which Agency managers feel now is supported after over a half decade of investigation and resource loss. The do-more-with-less philosophy seriously eroded the Agency, and our general can-do responsiveness undoubtedly misled others as well as ourselves as to our capabilities. Now, seeing the Administration's desire to strengthen intelligence, we are going for it, perhaps creating an impression of disregard for cost reductions. But, historically, cost effectiveness, overall efficiency, and cost reductions have been a fundamental part of both Comptroller and IG reviews and, at least since the 1960's, of line management reviews as well. (C)

2. General Support. I have discussed this subject with Harry Fitzwater as most of the support efforts are in his directorate. His separate memo to you indicates the steps he is taking to improve efficiency in the DDA. Harry also has the benefit of [] thinking. The individual items that Max developed for improving efficiency in the Administration Directorate have all been evaluated, and those that Max decided were worthwhile are being instituted. (C)

3. You should be aware that the efficiency of our support structure -- the cost effectiveness of their operations -- has increased substantially over the past five or six years. This was not the result of a formal program but rather was done in self-defense to allow us to adjust to a reduction in the Agency budget. Over the decade of the 1970s, the Agency budget was reduced 40 percent in purchasing power. The CIA as a whole has done better in recent years, but support has lagged behind. For example, we have added 774 full-time positions to the Agency in the 1981 and 1982 budgets. So in 1982, after an all-time low in 1980, we will have about as many people on

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board as we had in 1976. We will be supporting these people with an Administration Directorate smaller in staff and budget. In fact, from 1976 to 1982, the budget for general support (the DDA and DCI Area) decreased 10 percent in purchasing power. At the same time the Agency showed an overall 7 percent increase in purchasing power. During my tour as Comptroller, I have seen strikingly higher-than-average increases due to inflation in elements of the support program. Fuel and transportation costs are prime examples. This year to find funds to cover such unbudgeted increases, we had to reduce guard services (in some cases switching to cheaper, lower graded staff employees), reduce our procurement of furniture, and substantially decrease funding for office repair and renovation. (S)

4. IG Inspections and Audits. I think we can make improvements in areas other than the Administration Directorate. Your comment that Inspectors General in other government organizations look for cost savings as a matter of course is certainly true. It is also true that this is, and has been, a basic function of the Office of the Inspector General, both in the Audit Staff and the Inspection Staff. (U)

5. Chuck Briggs' Audit Staff is, in fact, the largest part of his office (41 of 80 slots). All Agency components and activities are audited in accord with standards set by OMB and the GAO, which standards lay heavy emphasis in the detection and elimination of waste and inefficiency. About 120 audit reports per year go to line management for corrective action. You do not see the reports because their recommendations are usually accepted and individual issues are usually relatively small, but the aggregate cost effectiveness is not small. You should know also that, because of the DCI's special authority with regard to expenditures, the Agency has always imposed stringent internal discipline, literally pressuring itself to be purer than Caesar's wife, in the handling of taxpayer's dollars, to protect that special authority. Recent audits have addressed silver reclamation from film; recoupment of overpayments; reduction of bank account levels, and of excess property; tightening of controls over ADP data base processes; and many more. (S)

6. Each inspection team is charged to assess management effectiveness as well as operational effectiveness, including efficient use of moneys and personnel and potential savings. Three recent examples:

a. FBIS and DDO/SE Division inspection reports led to action on a mass of untranslated high interest Soviet military and S&T documents. DoD estimates the efficiencies from these intelligence data runs to hundreds of millions.

b. The major recommendation of the recruitment survey was for an innovative pilot effort at decentralized recruiting, aimed at greatly reducing numbers put in process, in processing times and possibly in the number of field offices required.

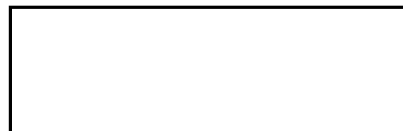
c. OTS, OMS, DDO/IAD inspections recommendations included expected gains in efficiency and productivity

from possible restructuring in the fields including counterterrorism, psychology, and psychiatry. (S)

7. Productivity Enhancement. The Executive Committee last year considered methods for productivity enhancement, measurement, and evaluation. Previously there had been some individual initiatives and activities along this line undertaken within the Agency. Notable examples were measurement and evaluation of productivity of imagery analysts within NPIC and initiatives within the Office of Finance, but there was no Agency-wide or directorate-wide approach to the problem. Since the CIA has been around for 34 years with virtually no formal productivity enhancement program, it stood to reason that there were gains to be made through a formal system of productivity enhancement. In the analysis leading to the Executive Committee discussion, we found that practically everybody in industry had a productivity enhancement program of some magnitude. While the idea was newer in government, it had gained substantially in popularity over the last five years. The Bureau of Labor Statistics (BLS) now measures 29 categories of activity from communication through library service and records management to procurement, finance, and accounting. The BLS estimates that these categories cover 65 percent of government's business. We find that approximately 40 percent of the money spent by CIA is in one or more of these categories. (S)

8. The Executive Committee recommended a pilot productivity program within the Agency. But since participants in industry and elsewhere in government had told us that top management support was a sine qua non for a successful productivity program, we delayed instituting the Executive Committee recommendation because of the change in Agency leadership. I believe it is now appropriate that the new Executive Committee review the subject under Admiral Inman's leadership to determine whether and how it should be instituted within the Agency. (C)

9. Monitoring Other Government Activities. You point out that the Department of Transportation has a small committee to formally study cost reduction and efficiency. We are very much interested to see what ideas they come up with, and we plan to survey other departments of government to determine if they have any other ideas applicable to CIA. You could adopt the Agency-wide panel Harry proposes or alternatively the DDA, the IG, and I could meet regularly to monitor our ongoing activities and to determine how they can be modified to best meet your desires to improve CIA efficiency and to reduce unnecessary expenditures. We could report to you quarterly the steps that have been taken to improve efficiency. (C)



Maurice Lipton

cc: DDA ✓
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TRANSMITTAL SLIP		DATE
TO: AEO/DDA <u>T</u>		5 JUN 1981
ROOM NO.	BUILDING	
REMARKS:		
ADDA <u>X</u>		5 JUN 1981
DDA <u>[Signature]</u>		8 JUN 1981
FROM:		
ROOM NO.	BUILDING	EXTENSION

FORM NO. 241
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REPLACES FORM 36-8
WHICH MAY BE USED.

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